

M&A activity slowly moving forward in the TMT sector

There are clear signs of life as far as possible mergers and acquisitions are concerned in the telecoms space



Source: Shutterstock

Given the low interest rate environment and the need to restore profitability for investments, we had high hopes for consolidation in 2022. The industry made some progress but it's a delicate process, not least given competition legislation. We did see some deals announced, predominantly in the tower space. And in the UK and Spain, where it could be argued the market was riper for more merger and acquisition activity, there were some notable developments, although it's worth saying that LBO activity - leverage buyouts - has been lacklustre.

LBO activity

In Europe, we saw no 'take private' deals with any telecoms company in 2022. Nevertheless, there has been market talk about LBO activity in the UK. Activist investors have pushed for change at BT and Vodafone, with the Vodafone CEO Nick Read leaving at the end of the year. Vodafone is not exactly the darling of the press either, with the Telegraph writing [[paywall](#)]: '*Vodafone is in need of a complete overhaul from top to bottom*'.

They are trying to repair some difficult markets, however, and we'll come to that in a moment. Also, the LBO market faced headwinds during 2022 and will likely see a difficult start in 2023. Loans will become more expensive, given the increase in high-yield credit yields. They have risen from levels of around 3% at the beginning of 2021 to more than 7% today. It's also worth noting that Bloomberg reports that some large US investment banks have a historically large exposure to LBO transactions that they have underwritten but not yet sold onto the capital markets. During 2022 the sale of US high-yield bonds reached a 10-year low point. This inventory likely has to clear before we enter a new LBO cycle.

Consolidation in Spain and the UK possible if regulators focus on investment needs

In 2022, two promising transactions were announced. A merger between Masmovil and Orange Spain was announced in Spain. In the UK, Vodafone UK wants to merge with Hutchison 3G UK. Both transactions are pending regulatory approval. The market leaders in the UK (BT) and Spain (Telefonica) benefit from a scale advantage. Smaller operators may find it difficult to deploy leading fixed and mobile networks to beat these larger companies. To do so, they need deep pockets for necessary network investments. This is troubling on a stand-alone basis with relatively small market shares. M&A will help the smaller operators to gain scale, which enables investments in the networks needed to offer competitive products. Given the small scale of the fourth largest operators in Italy and France, we also think that consolidation in these markets would help stabilise revenues, which could aid necessary investments in new technologies.

Mobile telecom operators in European markets

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|-----------------|---|
| Germany | • Deutsche Telekom • Vodafone • Telefónica Deutschland (O2) • 1&1 Drillisch |
| France | • Orange • SFR (Altice) • Bouygues Telecom • Free (Iliad) |
| Spain | • Telefónica • Vodafone • Orange • Masmovil |
| UK | • BT • Vodafone • Virgin Media O2 • Three UK (Hutchison) |
| Italy | • TIM • Vodafone • Wind Tre (Hutchison) • Iliad • Fastweb |
| Sweden | • Telia • Telenor • Tele2 • Three (Hutchison) |
| Norway | • Telenor • Telia • Ice |
| Denmark | • TDC • Telenor • Telia • Three (Hutchison) |
| Finland | • Elisa • Telia • DNA (Telenor) |
| The Netherlands | • KPN • VodafoneZiggo • T-Mobile |
| Belgium | • Proximus • Telenet • Orange Belgium • New network |

Source: ING research

Infrastructure assets remain attractive

We were somewhat surprised that the industry did not pull off large-scale M&A between incumbent tower operators, such as Vantage Towers, GD Towers (Deutsche Funkturm) or TOTEM. Interestingly, Deutsche Telekom managed to sell a stake in GD Towers to private equity (with a repurchase option). This must have been a disappointment for Cellnex since they are lacking scale in Germany. Notably, Cellnex then, announced that it is no longer pursuing large-scale M&A when it closed the acquisition of the towers from Hutchison 3G UK. Interestingly, Bloomberg reported in January 2023 that Cellnex is now the subject of an acquisition rumour. The only large tower portfolio that did not engage in M&A activity is that of Orange, TOTEM. Will they surprise us in 2023?

Apart from investments in mobile towers, there have also been large investments in the

deployment of new fibre broadband infrastructure. For private equity firms, also legacy telecom network infrastructure may offer attractive investment prospects. For example, KKR has shown an interest to acquire the Telecom Italia network, something that is still a possibility.

Our M&A expectations for 2023

We expect few large transactions in the beginning of the year. However, tower M&A is not completely off the table. There is still an appetite to do these deals, something that was shown with the recent Vantage Towers transaction. With respect to industrial M&A, we expect that Vodafone will bring more focus to its conglomerate once a new CEO has had the time to evaluate the options. We also wouldn't be surprised by consolidation in France and Italy. Nevertheless, we probably have to await the outcome of the pending M&A transactions in Spain and the UK first. Should regulators decide to block those deals, the overall picture across Europe may well change.

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